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December 4, 2000

Mary L. Cottrell, Secretary  
Massachusetts Department of Telecommunications and Energy  
One South Station, 2nd Floor  
Boston, MA 02114

Re: Verizon New England, Inc. d/b/a Verizon Massachusetts' Sixth Annual Price Cap Compliance Filing, D.T.E. 00-101

Dear Ms. Cottrell:

Pursuant to the public notice issued by the Department of Telecommunications and Energy ("Department" or "DTE") on November 15, 2000, the Attorney General submits this letter as his initial comments on Verizon New England, Inc. d/b/a Verizon Massachusetts' ("Verizon" or "the Company") Sixth Annual Price Cap Compliance Filing ("Filing"). (1)

The Attorney General has completed a preliminary review of the Filing and based upon that review, as discussed below, urges the Department to:

- Allow Verizon's proposed revenue reductions to take effect on December 15, 2000, without suspension, pending any review the Department may undertake;
- Require Verizon to incorporate changes to the price floor calculation in the Filing in accordance with the DTE's resolution of currently unresolved issues in the Price Floor docket, D.T.E. 94-185-E; and
- Create a working group or convene a technical session to prepare for considering Verizon's upcoming 2001 Price Cap Plan.

1. The Department should allow Verizon's proposed rate reductions to go into effect on December 15, 2000, without suspension.

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On May 12, 1995, the Department issued an Order in D.P.U. 94-50 which adopted a price cap model or plan ("Price Cap Plan") for regulating intrastate telephone operations. Since then, and on an annual basis, Verizon has submitted annual compliance filings in accordance with that Price Cap Plan. In the present Filing, Verizon proposes to reduce its intrastate revenues by approximately 2.09% or \$38.77 million in a manner that provides benefits and/or refunds in the amounts of \$34.4 million to residential consumers and \$4.37 million to business consumers. Most of the reductions for residential consumers are effectuated through reduced charges for Non-Recurring services (\$20.92 million), Bay State Overtime Minutes (\$5.35 million), Local Package (\$4.58 million), Metropolitan/Bay State Metropolitan (\$2.77 million), and SoundDeal (\$2.28 million). Most of the reductions for business consumers occur through reduced charges for Pay Phone Directory Assistance (\$1.89 million) and Toll services (\$1.82 million).

The proposed revisions to Verizon's M.D.T.E. Tariff No. 10 to implement the rate reductions and/or refunds will take effect on December 15, 2000, unless suspended by the Department. As in previous years, the Department has asked for comments on whether the proposed rate changes should be suspended during the Department's investigation of the Filing. Typically, the Department has ordered that such rate changes should not be suspended. The Attorney General recommends that the Department allow Verizon to put into effect on December 15, 2000, the full rate reduction that is required in accordance with existing price cap formulas adopted in the Filing. Suspension of the rate reductions would prevent Massachusetts consumers from receiving the benefits of these price reductions until the end of the statutory suspension period. Additionally, suspension would unfairly benefit Verizon by allowing Verizon to keep the revenues associated with the delay.

2. The Department should require Verizon to incorporate any Price Floor calculation changes into this Price Cap Filing.

In response to the DTE's order in DTE 94-185-E (August 3, 2000) ("Price Floor Order"), Verizon included price floor calculations for measured toll services in the present Filing. (2) Subsequently, AT&T Communications of New England, Inc. challenged Verizon's price floor calculation in DTE 94-185-E, and the DTE has not yet resolved this challenge. Because the Filing includes price floor calculations which are based on Verizon's compliance with the Price Floor Order, the Attorney General requests that the DTE require Verizon to revise its price floor calculations in the Filing to comply with the DTE's final resolution of the remaining issues in DTE 94-185-E.

3. The DTE should convene a Year 2001 Price Caps working group or technical session as preparation for Verizon's upcoming revised Price Cap Plan.

The Verizon Price Cap Plan expires August 1, 2001. In D.P.U. 94-50, the Department indicated that at the end of the term of the Plan that it would undertake "a review of the appropriate form of regulation for NYNEX." D.P.U. 94-50 Order (May 12, 1995), p. 273. In anticipation of this review, the Attorney General urges the DTE to

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require Verizon to provide basic information to the Department, the Attorney General and other intervenors from DPU 94-50 with which to begin preparation for this important undertaking. (3) The Department should also convene a working group in anticipation of the upcoming review to consider and reach a consensus on an orderly, efficient framework in which to conduct this review.

4. Conclusion.

For the foregoing reasons, the Attorney General urges the DTE to: (1) allow Verizon's proposed revenue reductions to residential and business consumers to go into effect on December 15, 2000, without suspension; (2) require Verizon to incorporate appropriate changes to its Price

Floor calculation; and (3) convene a working group or technical session to prepare for review of Verizon's upcoming 2001 Price Cap Plan.

Sincerely,

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cc: Attached service list

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1. The Attorney General's comments do not address all issues raised by the Filing. Accordingly, the lack of comment on other matters contained in the Filing should not be construed or otherwise interpreted as the Attorney General's agreement, assent, or acquiescence to those matters.
2. See Section B, Tab 3 "Price Floors" pages 1-4.
3. At a minimum, Verizon should be required to provide the following material:
  - cost allocation studies and depreciation schedules/studies;
  - annual financial reports (state and federal) and SEC filings for each year from 1995 through 2000 for Verizon Massachusetts, Verizon New England, Inc., Verizon New York, Inc., Verizon North, Inc., and Verizon Communications, Inc. and their predecessors;
  - a comprehensive description of the differences in Verizon's subsidiary relationships, capital structure, investments, revenues and expenses between the most recent historical test year and from what they were at the time of Verizon's (formerly New England Telephone and Telegraph Company) last general rate case, DPU 89-300, Order (June 29, 1990); and
  - a full "cost of service" for the Massachusetts intrastate operations of Verizon New England, Inc, based on a calendar year 1999 or 2000 test year.